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RUEHAR/AMEMBASSY ACCRA 0738
RUEHAN/AMEMBASSY ANTANANARIVO 0967
RUEHCO/AMEMBASSY COTONOU 0894
RUEHDK/AMEMBASSY DAKAR 1348
RUEHHK/AMCONSUL HONG KONG 0203

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SUBJECT: PARIS CLUB - MARCH 2007 TOUR D'HORIZON

REF: Paris 328

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SUMMARY

11. (SBU) The March 14 meeting of the Paris Club reviewed the debt status of 24 countries, taking steps to prepare for debt treatments in the coming months for the Central African Republic (likely in April), the Gambia (in May), Sao Tome and Principe (in May), and Liberia. Creditors confirmed their intention to continue acting as a group in encouraging Argentina and Angola to resolve their arrears, even as both countries have declined to accept an IMF program and hence do not qualify for a formal rescheduling of debt under Paris Club rules. The Secretariat will approach Peru and Gabon to clarify their prepayment or buyback offers and convey Creditors' initial indication of a favorable response. The U.S. will be able to accept prepayment by Peru, which could come to Paris for negotiations as early as April. Creditors reported good progress toward completing bilateral agreements with Afghanistan, but not with Cambodia and Iraq. Chad, Ivory Coast, and Kenya continue to have trouble meeting conditions for the next phase of debt relief under the Heavily Indebted Poor Country (HIPC) initiative, while the Kyrgyz Republic has declined HIPC status in favor of non-traditional bilateral debt relief. Other countries on the agenda included Antigua and Barbuda, North Korea, Serbia and Montenegro, the Seychelles, Ethiopia, Ghana, Madagascar, Benin and Senegal.

Afghanistan

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12. (U) Creditors agreed to postpone until May 31, 2007 the deadline for Afghanistan to conclude bilateral agreements implementing the July 2006 Paris Club agreement. Russia said it had just received (March 13) a response to the draft bilateral agreement it had proposed to Afghanistan and would be reviewing it in the coming days. Germany said it expected to sign its bilateral agreement at the end of March. (The US-Afghanistan bilateral agreement entered into force on March 16, 2007.)

Angola

13. (SBU) Creditors agreed on a strategy for reengaging with Angola in the wake of the GRA's decision not to pursue an IMF program. In recent months, Angola has cleared most, but not all, of its arrears to the Paris Club, excluding late interest. In a letter sent to the Secretariat in February, the GRA stated it wanted to negotiate

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bilaterally the cancellation of late interest accumulated over the last 18 years (totaling approximately USD 2 billion, but none owed to the U.S.). Creditors concluded that in the absence of an IMF program, a formal agreement to treat late interest would violate Paris Club principles. Nonetheless, they concurred that resolution of late interest should be addressed as a group, and recognized Angola's good-faith efforts to clear arrears.

14. (SBU) Paris Club Chairman Musca proposed the following strategy:

-- Angola must first clear its remaining arrears (excluding late interest). Belgium, Denmark, the Netherlands, and Sweden all reported arrears.

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-- Once arrears have been cleared, Angola should unilaterally pay 40-60% of the late interest due and then propose a schedule for paying off the balance over time.

-- In return, Paris Club members' export credit agencies, at their

discretion, could decide to reopen export cover. (Spain confirmed that its ECA has already extended new but limited short-term export financing to Angola.)

-- As an additional inducement, creditors might offer, on a bilateral basis but subject to Paris Club coordination, to reduce the late interest rate or any penalty charges.

-- Creditors could also offer debt-for-aid and debt-for-equity swaps, based on existing limitations.

15. (SBU) Citing precedent concerns related to debt treatment without an IMF program, the U.S. cautioned the Paris Club to be careful that this approach be clearly distinct from a formal rescheduling. To that end, creditors should not formally normalize relations until all arrears and late interest charges have been cleared. Despite this concern, the U.S. did not attempt to block the proposed strategy, recognizing the need for a creative solution and the fact the U.S. is one of only two creditors (along with Germany) to whom Angola is current. The Secretariat will send a letter to the GRA expressing creditors' willingness "to explore the possibilities of total regularization of late interest payments on a multilateral basis" once all arrears have been cleared. Musca will follow up by seeking a bilateral meeting with Angolan Finance Minister de Moraes in the coming weeks.

Antigua and Barbuda

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16. (SBU) The IMF said the new government has no interest in an IMF program, but is eager to normalize relations with its creditors. Total government debt is USD 983 million (102% of GDP), of which USD 231 million is owed to external commercial creditors and USD 92 million to external bilateral creditors (including the Paris Club). France, Japan, and the UK each reported that they had rescheduled some of Antigua and Barbuda's debt bilaterally in the past, and in each case payments were again in arrears. Italy acknowledged that it canceled 90% of its claims in 2005 (stating that it reported this to the Secretariat at the time). France said the new government contacted French officials seeking partial debt cancellation. The Secretariat will initiate a data call, followed by a letter to the

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GOAB requesting arrears clearance and explaining the Paris Club's rules.

Argentina

17. (SBU) Spain defended its decision to restructure its 2001 emergency loan to Argentina outside the Paris Club as a "principled action" based on the loan's special nature. Moreover, Spain claimed that the terms of the rescheduling, though not concessional, were not so demanding they could undermine Argentina's capacity to repay its remaining Paris Club debt (including to Spain). Spain stressed it had made it clear to Argentina that the agreement could not be used as a reference for any future deal in the Paris Club. Creditors reiterated the importance of maintaining solidarity and staying on message (i.e., there can be no rescheduling without an IMF program, and Argentina should use its current strong financial position to clear its arrears in full). The Netherlands continued to encourage creditors to consider creative solutions.

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18. (SBU) Chairman Musca stressed the critical importance of Export Credit Agencies (ECAs) not going back on cover prematurely; to do so, he said, would seriously undermine the club's leverage. While Musca recognized that the Paris Club had no authority over its members' ECAs, he requested delegations keep the Secretariat

informed of any ECA plans to reopen in Argentina, adding he would personally intervene to discourage such a move. In response to Germany's request that the Secretariat approach the GOA, Musca indicated he would take advantage of every opportunity to convey again the Paris Club's message (and urged each creditor to do the same), but thought a true dialogue would not be possible until Argentina first made a serious offer.

Cambodia

¶9. (SBU) The U.S. and Russia reported no progress in concluding bilateral agreements implementing the 1995 Paris Club agreement. Russia said it had sent a letter to Phnom Penh offering to resume negotiations in March, but had yet to receive a response. The Secretariat will send a letter to the authorities urging them to

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conclude these bilateral agreements and stressing the importance of inter-creditor equity when making payments. Japan sought to reassure other creditors that Cambodia's recent unilateral prepayment was done without prior consultation.

Central African Republic

¶10. (SBU) CAR is scheduled to come to the Paris Club in April to negotiate a Naples flow treatment under the Heavily Indebted Poor Country (HIPC) initiative. The IMF said CAR could reach "Decision

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Point" and be eligible for additional interim debt relief at the time of the first review of its Poverty Reduction and Growth Facility (PRGF) program in September 2007. Completion of the HIPC process could follow as early as 2009. Russia reported for the first time unresolved data discrepancies from its 1998 bilateral agreement with Cambodia (initialed but never signed), but sought to reassure the Chair that it could still work out this problem in time for the negotiations to proceed at the Paris Club meeting in April.

Chad

¶11. (U) The IMF said the first and second reviews of the PRGF could be completed by end-May. The reviews have been delayed due to a dispute over the management of oil revenues and fiscal overruns, resulting in the suspension of HIPC interim relief. (The US is not a creditor.)

Gabon

¶12. (SBU) The Secretariat said Gabon's offer to buy back its Paris Club debt at a 33% discount mixes two distinct options: one is a request for debt reduction under the Evian approach, and the other to pay off the debt early, either at face value or a market price. Creditors agreed that, under the Evian approach, Gabon was free to pursue debt reduction once it had an IMF program in place, but also thought it would not meet the eligibility criteria. Several creditors said they would welcome a prepayment at face value, and possibly a buyback at a market price, depending on the size of the discount. The Secretariat said an appropriate market discount would certainly be less than 33%.

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¶13. (SBU) The Secretariat confirmed that buybacks are reserved for debtor countries having graduated from the risk of a Paris Club rescheduling and said Gabon was in this category (despite its apparent request for debt reduction and vulnerability to oil

production declines and price volatility). As a next step, the Secretariat will ask the GOG to clarify its request. If a buyback

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at a market price is the goal, the Secretariat will begin technical work to determine the appropriate discount. The IMF cautioned that Gabon does not have any market-traded debt that can be used as a reference.

The Gambia

¶14. (U) Following the approval of a new PRGF, creditors are contemplating whether to invite The Gambia to Paris in May to negotiate the resumption of HIPC interim relief. Typically, the resumption of HIPC interim relief can be accomplished by email, but in this case, the existence of arrears to Norway -- The Gambia's largest Paris Club creditor -- may require face-to-face negotiations. According to the IMF, The Gambia could reach HIPC "Completion Point" at the time of the first review in the second half of 2007. (The US is not a creditor.)

Iraq

¶15. (SBU) Russia repeated its familiar refrain that its bilateral agreement with Iraq has been finalized but not yet approved. The U.S. followed up on its January request (reftel) that Germany explain in writing its attempt to collect 100% of post-1990

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pre-cutoff date claims on Iraq. The German representative (attending his first Paris Club meeting) declined to go into detail and suggested that the issue would best be addressed bilaterally rather than in the Club. He claimed the US was already familiar with the matter and that the Iraqis themselves had agreed the debt in question was not subject to Paris Club terms. The Secretariat supported the U.S. position, however, that this was an issue for the Club and called on Germany to submit a written explanation of its actions before concluding any deal with Iraq. Germany agreed but complained that it was being singled out unfairly.

Ivory Coast

¶16. (U) An IMF mission to the Ivory Coast is scheduled for late April to discuss a new Emergency Post-Conflict Arrangement (EPCA). Fund reengagement will depend on clearance of arrears to the World Bank and African Development Bank. They anticipate a sequential treatment plan that will allow new financing after arrears are cleared, a unity government is in place, and security improves. The Secretariat will request creditors submit data to get a current

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picture of Ivory Coast's PARIS CLUB debt.

Kenya

¶17. (U) The IMF has extended Kenya's PRGF again, this time until April 30, to allow time for completion of the long-delayed second review. Creditors will decide at the April meeting whether to enter into force the third and final phase of Kenya's 2004 rescheduling, which is conditioned on completion of the review. The third phase covers maturities falling due in 2006.

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Kyrgyz Republic

¶18. (U) The IMF and World Bank said the GKR has decided not to participate in the HIPC initiative. Responding to the Chair, the IMF did not think bilateral creditors would need to provide additional relief as a result of the KR forgoing debt forgiveness under the Multilateral Debt Relief Initiative (MDRI).

Liberia

¶19. (U) The IMF said a Rights Accumulation Program (RAP) could be presented to the executive board as soon as the Fund receives financing assurances from Paris Club creditors related to the provision of debt relief under HIPC and MDRI. The Paris Club would be expected to provide interim debt relief (Naples terms) upon approval of the RAP. The IMF said Liberia could reach HIPC Decision Point very quickly thereafter, at which time the Paris Club would provide addition interim debt relief (Cologne terms).

¶20. (U) The Secretariat distributed the results of the latest data call. As of January 1, 2006, Liberia owed the Paris Club USD 1.2 billion, of which USD 1.1 billion consists of arrears and late interest. The United States is the largest creditor, accounting for 33% of the debt, followed by Germany (31%) and Japan (11%).

North Korea

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¶21. (SBU) Russia confirmed that it had discussed debt issues with North Korea, but contrary to press reports, said it had not agreed to any debt cancellation. Russia said North Korea has repeatedly asked Russia for 100% cancellation of its USD 9 billion debt. Russia has advised North Korea to normalize relations with the IMF and resolve its debt problems in a multilateral framework. North Korea has declined to pursue this course of action. Russia expects North Korea to raise the debt issue again in bilateral talks scheduled for late March. The Secretariat noted that the Paris Club's solidarity principle does not exclude bilateral negotiations with a debtor country that has no prospect of a Paris Club agreement. There should be a consensus within the Paris Club, however, before bilateral negotiations take place. Switzerland and the Netherlands also reported holding North Korean debt, but have had no substantive bilateral discussions on any debt treatment.

Peru

¶22. (SBU) Creditors welcomed Peru's offer to prepay at face value its previously rescheduled non-ODA (official development assistance) debt falling due between 2010 and 2015. The Secretariat said Peru would decide on the precise prepayment amount based on the extent of creditor participation. Noting Peru's relatively narrow credit spread (over the cost of U.S. Treasuries), the Secretariat estimated the market price of Peru's fixed-rate Paris Club debt at 5-10% above face value. Germany and Italy questioned whether the prepayment should include a buyback option (i.e., at the higher than face value price) similar to the agreement concluded with Russia last year. The Secretariat will alert Peru to this possibility and expects negotiations to take place in either April or May in Paris. The U.S. will be able to participate in a prepayment.

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Sao Tome and Principe

¶23. (U) The Secretariat will invite STP to the Paris Club in May

for its Completion Point debt treatment under HIPC. Russia reported that it has not been able to conclude its bilateral agreement implementing the September 2005 Paris Club Terms of Reference. (The US is not a creditor.)

Serbia and Montenegro

¶24. (U) Several creditors (Germany, Japan, Netherlands, Norway, Switzerland) complained that Serbia and Montenegro have refused to allocate debt between themselves according to the debtor/guarantor principle, and therefore no progress has been made toward concluding bilateral agreements. Although feeling hampered by delays in the formation of a new Serbian government, the Secretariat agreed to send a letter to the head of the Serbian Treasury reiterating the Paris Club's position, as articulated in a November 13 letter, that bilateral agreements between the Paris Club and the two countries must follow the debtor/guarantor principle, unless the creditor agrees to accept the final beneficiary principle (as the U.S. is willing to do).

Seychelles

¶25. (U) Creditors reported that they had received their share of the Seychelles' 4 million euros arrears payment. The Secretariat will send a letter to the GOS thanking it for the payment and

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encouraging the Seychelles to pursue an IMF program. (The US is not a creditor.)

Post-HIPC Countries - Comparable Treatment Follow-Up

¶26. (U) The Secretariat summarized the responses received from Ethiopia, Ghana, Madagascar, Benin, and Senegal regarding their efforts to obtain debt relief from non-Paris Club creditors as an indication that more work is needed to ensure comparable treatment and debt sustainability. As a next step, the Secretariat proposed a draft letter to IMF Managing Director Rato calling on IMF and World Bank staff to provide technical assistance to HIPC beneficiaries. The IMF reported that it already works with these countries on debt management issues and recognizes the need for capacity building, but also pointed out that it has little sway over non-Paris Club creditors. The IMF will soon issue a paper on this challenge. The Secretariat will circulate a draft letter based on these

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discussions.

STAPLETON#